



1916



## Economic Conditions Governmental Finance United States Securities

NEW YORK, NOVEMBER, 1916.

### General Business Conditions.

**T**HE chief feature of the past month has been the rise of prices, particularly in agricultural products, based upon a confirmation of earlier reports concerning the crops. There is no escape from the unpleasant fact that this country and the whole world are entering upon a year of scarcity, and of probably the highest prices for food products experienced by the present generation. It is, of course, something to be deplored from every viewpoint, and cannot but be an unfavorable factor in the business situation until relief is afforded by a more abundant yield of the common necessities. The vast machinery of the industrial and business world is too complicated to allow of ready adaptation throughout to these sudden changes in the cost of living, and they inevitably inflict much hardship upon individuals and occasion no little industrial derangement.

#### The Wheat Crop.

The government's October estimate upon the year's production of wheat in the United States was 607,577,000 bushels, which compares with a final estimate of 1,011,505,000 bushels in 1915. Furthermore, the government estimates the average weight of this crop at 51.4 lbs. per measured bushel, against 57.5 last year, the highest in years. This is calculated to be equivalent to a further reduction of about 60,000,000 bushels. The Canadian wheat crop is officially estimated at 159,123,000, as compared with 370,303,600 in 1915. Moreover, the work of threshing the crop has been delayed by a shortage of labor, and latest reports say that much of it is still standing in the shock and covered with snow, a condition which may result in serious loss. Last year's big Canadian crop has moved out and the visible supply there is now below that of a year ago. The world situation is worse than a month ago by reason of a continuance of the drought in Argentina, where the crop seems to have met with disaster, and unfavorable news of the yield in both France and Italy. The Australian crop is promising well, and that country has reserves from last year. The Indian crop also will give a surplus for export, but altogether the world's

wheat crop is about 25 per cent. below last year's, and the prospect is that every available bushel will be wanted to meet normal consumption, leaving practically nothing to be carried over.

The situation would be materially altered if the Russian surplus could be brought out, but the state of war in the Balkans does not encourage this expectation. The British government has undertaken to make all purchases not only for home consumption but for France and Italy, and to supply ships for transportation. It is expected that the Canadian crop will be commandeered, but probably not until British purchases have been completed in this country. Wheat for December delivery at Chicago has sold up to \$1.90 per bushel, the highest price since the Civil War, and then the price was in depreciated paper currency.

#### Other Food Supplies.

The situation is aggravated by the fact that there is no compensating abundance in any of the other food crops. Corn gives only a moderate yield, oats are a fair crop, potatoes are distinctly short, and the vegetables and fruits used for canning are all in short supply. Corn bids fair to sell in the Middle West at the extraordinary price of \$1 per bushel, and this will be reflected in the price of meats. Already reports from the live stock markets say that few well finished beefs are being received. It requires courage for a farmer to put weight upon cattle with corn worth above 80 cents per bushel. The hog crop seems to be good, but the provision market is kept up by high priced corn and a great European demand. A well informed Chicago writer says:

The amount of meats that have been shipped to Belgium since the Belgium Relief Commission has been established is enormous and forecasts a long period of big trade from Europe during and after the war is over and there is no doubt that good prices for all kinds of hog product will prevail for a long time and the stocks of very cheap meats which existed two or three years ago are now out of the question.

Butter, eggs and meats are moving from this country through Canada to Great Britain in

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large quantities, and to a great extent in pursuance with contracts made last summer.

#### **Materials For Manufactures.**

The materials for manufactures have also been advancing under the extraordinary demand, coupled with a short yield of such as are produced from the soil. Cotton has touched 20 cents per pound within the last week, the highest gold price ever known in this country, if certain cornered deliveries be excepted. The crop was cut short by floods.

Wool is another scarce article, due to the enormous consumption for the armies and the British embargo. American manufacturers have been buying heavily of late in Argentina at about 45 cents per pound and upwards for quality that cost about 20 cents before the war. Higher freight charges make an even greater difference in final cost at the mills. The demand for woollen and cotton goods continues strong, but it is too early to say how the retail market will take to goods made upon the basis of present costs.

The cotton mill operatives at Fall River have asked another advance of ten per cent. in wages, which the managers have declined to grant at present, alleging that many of them are still working upon contracts taken at lower prices, and that more time should be allowed to lapse before another increase is considered.

The iron and steel industry is becoming seriously embarrassed by a shortage of coke and coal, due to a shortage of labor and of cars. The pig iron situation is becoming tighter, and with an increasing consumption it looks as though the furnaces might not be able to take care of the demand. Stocks have worked low and prices are stronger with some talk that there may be a scarcity of ore another season.

The scarcity of labor and high wages paid in the industrial districts of the north has caused a considerable movement of negro laborers from the southern states, with some embarrassment to industries in that section.

There is nothing in current conditions to indicate an early change in the industrial situation. Employment is full, wages are advancing, the agricultural districts are very prosperous, and the railroads have more business than they can readily handle. There is much that is abnormal and unsatisfactory in the situation, but the volume of production and consumption is unprecedented, and will doubtless continue on this level while the war lasts. While it is true that the volume of our foreign trade is but a small percentage of our domestic trade it is evident that the former is at this time a tremendous factor in the latter. Our exports for the last four months have been running at the rate of \$6,000,000,000 per year.

The money market is controlled by the importations of gold, and no material change in

rates is to be expected while they continue on the present scale.

#### **Bond and Stock Market for October.**

The second secured gold loan by the United Kingdom of Great Britain and Ireland in the United States, has been brought out more quickly after the first than was anticipated, owing to conditions which we discuss elsewhere. This loan is for \$300,000,000 at 5½%, one half maturing in three years and one half in five years. The three year maturity has been publicly offered at 99¼ yielding about 5.75% and the longer maturing at 98½ yielding about 5.85%. The loan is secured by deposit of \$360,000,000 market value of securities of which one half consists of United States Government corporation issues including those of the Canadian Pacific Railway and of the Canadian Government. The balance of the collateral is composed of dividend paying British Railway Company obligations and government securities of British dominions, South America governments, Cuba, Japan, Egypt and India. The principal and interest of the loan is payable in New York in U. S. gold or at the option of the holder in London in sterling at the fixed rate of \$4.86½ per £. The notes are free from any British taxes present or future. The offering was made by a large syndicate and the issue has been very well received.

New borrowings by domestic corporations are light, a fact that is accounted for in part by the accumulation of large cash balances through good earnings. The supply of our own high grade securities is therefore decreasing in comparison with the demand. This condition has helped the sale in this country of foreign loans which offer high yields for such a class of securities. Some of these issues are collaterally secured, as the current British loan. Others provide opportunities for profits in exchange, while others are plain general credit government obligations. As has been previously pointed out in these columns, our sales in merchandise, food stuffs, etc., to foreign nations have now reached such an unprecedented magnitude that we cannot expect payments to be made in gold and general imports.

Other foreign loans announced during October, outside of commercial credits, include \$7,500,000 to the Brazilian Traction, Light and Power Company, \$5,500,000 to the City of Sao Paulo, Brazil, and \$2,000,000 to the City of Dublin, Ireland.

Southern Railway Development 4s have been active at advancing prices, due to a proposition submitted to the bondholders to exchange their present bonds for a new 4½% refunding and improvement bond. The stockholders are to vote upon the issue of the new Refunding and Improvement mortgage under which future bonds may be issued from time to time at vary-

ing rates of interest as the bond market may require, but in no event to exceed 6%.

Chesapeake and Ohio Convertible 5s have advanced to around 97½ reflecting the good earnings of the company.

The whole bond market continues very active. Sales on the Stock Exchange for the month of October to the close of business on the 28th amount to \$132,864,500, a daily average of \$5,776,000 compared with \$3,885,800 in September and \$3,359,000 in August. Total sales for the year to the 28th amount to \$918,787,450 which is more than \$200,000,000 above the sales for the same period in 1915. Dealings in foreign government issues such as the Anglo-French 5s, American Foreign Securities 5s, United Kingdom of Great Britain and Ireland 5s and Russian Government 6½s continue to form a large percentage of the total bond sales. The activity in the bond market has been accompanied by an advance in prices. The average price of forty listed bonds, as compiled by the *Wall Street Journal* October 28th, was 95.11 compared with 94.50 October 2nd and 93.77 September 1st.

The directors of the New York Central Railroad Company have authorized the sale of 250,000 shares of treasury stock of the Company. The stock will be offered to stockholders at par to the extent of ten per cent. of their holdings. It is an encouraging sign in the railroad situation that the New York Central is able to provide for new capital requirements from the owners of the property rather than from the creditors.

The stock market continues very active but more irregular than during the previous month. The market has experienced sharp breaks especially in certain industrial issues whose future is more or less closely connected with the continuance of the war. The general level of prices remained practically the same at the close of business October 28th as at the beginning of the month.

### The Influx of Gold.

The continuance of gold importations on a large scale has been the most important fact of the month in finance. The British Chancellor of the Exchequer stated in the House of Commons recently that the purchases of the British government in America were running at the rate of \$10,000,000 per day, and while they continue at this rate it is evident that gold must come forward unless loans are made here upon a scale even larger than in the past. Gold arrivals from Canada during the past month amounted to about \$75,000,000 and the net increase in the country's gold holdings since January 1, 1916, has been approximately \$400,000,000.

It requires no profound knowledge of economics to understand that these extraordinary additions to the bank reserves of the country

are undesirable. They are not required to carry on the normal business of the country, and if they are used as the basis of credit the debt expansion will be of dangerous proportions.

The quantitative theory of money, or the effect of changes in the supply of money and credit upon prices, is a subject of never ending debate among economists, but the controversy is largely over imaginary differences. That increasing bank reserves support and encourage an expansion of credit will scarcely be questioned, and that this expansion of credit means the creation and use of additional purchasing power is an equally familiar fact. The country is doing business at this time under conditions which, superficially considered, are calculated to encourage people to go into debt. Money is easy, and interest rates are low, while the profits of business are unusually large. There is temptation to borrow money to buy the stocks of companies that are making phenomenal earnings and to enlarge industries which are making such earnings. There is a demand for goods which scarcely stops at price, and with money easy and cheap there is inducement to increase the output; but every attempt to do so means further demand for labor and materials, and thus tends to put our entire industrial system upon a higher level of costs. Similarly, the high prices for farm products will naturally encourage farmers to borrow money to buy more land.

Fortunately, the whole country has been thus far profoundly impressed by the temporary character of this prosperity, and extremely cautious in its operations. The periodical scares in the stock market have had a wholesome influence there, and it is not easy to show that there has been undue expansion of industry or indebtedness up to this time, but as long as conditions remain so favorable, the danger will be present. If the new supplies of gold cannot be helpfully used, and may be harmfully used, they had better not be in the country at all.

### Foreign Loans.

This view has prompted bankers to look favorably upon foreign loans and to encourage offerings in this market as fast as they can be properly absorbed. They serve the double purpose of facilitating foreign purchases of American commodities, and of reducing current gold importations. While it is inevitable that the latter will be very large, the loans will hold them in check and take up, in part at least, the new lending power which they create.

While thus serving a useful part in preventing an undue expansion of credit in this country, the loans will also answer to meet demands upon us for gold in the period of readjustment which will follow the war. It is recognized that we are receiving far more than our

share of the world's gold, according to any normal distribution and that when the war is over all influences will work for a re-distribution. If we go on receiving gold, and it enters into use as the basis of credit, it will work mischief in two ways: First, it will, as described above, tend to elevate the level of costs upon which our industries are based above the level in other countries, thus making it impracticable for us to sell abroad and bringing about, eventually, an unfavorable trade balance; second, when the balance of payments is against us, gold will go out, compelling a contraction of credits, which usually involves severe losses and a prolonged period of depression.

Gold will go out, also for another reason, to wit: with the rest of the world suffering for capital, and for gold to support credit, and with costs upon a relatively high basis in the United States, the inducements for the use of American capital abroad will be very strong. In short, the international situation is bound to work back into the normal equilibrium.

If, however, instead of taking payment altogether in gold and our own securities, we provide part pay in loans running two or three years, these loans as they expire will create offsets for equal demands upon us, and thus avert the derangement of financial conditions which must result from heavy withdrawals of gold from our reserves. They have the same effect as if an equal amount of imported gold was impounded and ear-marked for exportation later.

We calculate that, including the British loan just concluded, the total of all loans to the belligerent governments placed in the United States since the outbreak of the war is \$1,778,600,000, and adding the loans to Canadian provinces and cities, which amount to \$185,000,000 and \$8,200,000 for the London water-works and City of Dublin loans, the total is \$1,981,800,000. Of these, however, \$156,400,000 have matured and been paid off, leaving the net amount of public loans to the belligerent nations at \$1,825,400,000. Besides these, there are \$156,457,627 in loans which have been made in the same period to Latin America and other neutral countries. The recapitulation is as follows:

**Public Loans to Belligerent Countries, Including Provinces and Municipalities.**

Great Britain .....	\$ 858,400,000
France .....	656,200,000
Russia .....	117,200,000
Italy .....	25,000,000
Dominion of Canada.....	120,000,000
Canadian Provinces and Municipalities..	185,000,000
Germany .....	20,000,000
<b>Total .....</b>	<b>\$1,981,800,000</b>
Less amt. paid off.....	156,400,000
	<b>\$1,825,400,000</b>
Latin America .....	117,457,637
Neutral European Countries and China	39,000,000
<b>Net total foreign loans now out-</b>	
<b>standing .....</b>	<b>\$1,981,857,637</b>

**Federal Reserve Notes in Member Bank Reserves.**

We have not been surprised to receive protests from quarters entitled to the utmost respect against our comments of last month favoring the use of Federal Reserve notes in member bank reserves, but we have received nothing which presents a new view of the subject. The comments of the Bulletin were written without knowledge that Mr. Warburg, of the Federal Reserve Board was about to deal with the same subject before the American Bankers Convention at Kansas City, which he did in a manner so comprehensive and convincing as to leave little further to be said.

Nevertheless, this continuing dissipation of our gold resources in face of the fact that before long we may have need of them within reach, is so serious a matter that frequent repetition of the facts is desirable. The Federal reserve system will not be adequately prepared for adverse conditions until a much larger proportion of the gold stock of the country is within its control.

We are receiving gold in enormous amounts. The movement is abnormal, and the more we receive the more certain it is that there will be a return movement after the war. Common prudence requires that we look forward to the necessity of providing gold for this outward movement.

Since the beginning of the year 1916, the Federal reserve banks have had an increase in their deposits from \$415,012,000 to \$581,900,000 and this has occasioned an increase in their gold holdings from \$344,963,000 to \$397,979,000. Besides this, by diligent efforts, but necessarily by roundabout and inconvenient methods, they have succeeded in increasing the amount in the hands of the reserve agents from \$139,940,000 to \$219,502,000. The total gain of gold in the reserve banks and with the reserve agents has been \$132,578,000, while the increase in the country's stock has been approximately \$400,000,000. Of course the free gold holdings, i. e., the amount over and above required reserves against notes and deposits, and which could be released for exportation without bringing the reserve banks below their required reserves, is very much less. These figures show that the reserve system is lacking in adequate powers to attract and conserve the gold reserves of the country. With literally a tidal wave of gold entering the country and sure to recede later, the reserve system, which should be gathering it in, is obtaining a relatively small portion of it.

Moreover, the Federal Reserve Bank of New York will have to take the brunt of the demands for export, and although it has been putting forth special efforts to hold some of the gold that has been streaming past its doors and through its vaults, its stock has increased since December 30, 1915, only from \$258,265,000 to

**\$260,028,000** including the holdings of the reserve agent.

The total stock of gold coin and bullion in the United States is approximately \$2,700,000,000, and in comparison with this the amount held by the reserve banks is disappointingly small. Clearly there is something the matter with a "reserve" system which does not accumulate reserves under such favorable conditions against the time of stress when reserves will be required.

#### **Possible Demands Upon the Reserve Banks.**

Mr. Warburg has expressed the opinion that the reserve banks ought to be able to lose \$300,000,000 to \$500,000,000 of gold and still have \$200,000,000 to \$300,000,000 of free gold against which additional notes could be issued if domestic conditions required them. This opinion should appeal to every prudent banker. The amount of Aldrich-Vreeland notes issued in 1914 was approximately \$384,000,000, and a much larger amount might be required if a really critical situation developed in the United States. Mr. Warburg showed that the additional lending power of all the Federal reserve banks, upon their present gold reserves, at an outside estimate, scarcely exceeds \$560,000,000. But if they should lose \$200,000,000 of gold by exportation their lending capacity would be reduced by practically \$500,000,000.

The effectiveness of the reserve system depends upon universal confidence in its ability to meet any situation that may possibly develop. The present gold reserves are not large enough to inspire this confidence. There should be no speculation or guess work about it. The country and the world should be able to see not only that there was gold enough in the reserve banks to meet any possible export movement, but to support any probable domestic demand for the notes.

It is said in reply to these representations that the Clearing House banks of New York have taken care of gold exports in the past and can do so again. But the Federal Reserve banks have assumed responsibility for these reserves and on the strength of their supposed resources the required reserves of the member banks in the Central reserve cities have been reduced to 18%. Moreover large withdrawals of gold from the Clearing House banks will compel a much larger contraction of loans, and one of the principal reasons for establishing the Federal Reserve system was to avoid this drastic necessity. Finally, the whole scheme of requiring the New York banks to supply the gold for an export movement resulting from international conditions broke down in 1914. The New York banks were obliged at that time to decline to supply gold to pay the debts of the whole United States, and their position was so far justified and accepted by the banks of the interior that the latter joined in contributing to a gold exchange fund. Fortun-

ately the international situation changed soon afterward, so that the gold fund was used only in part, but the weakness of having national necessities depend upon voluntary contributions was sufficiently evident. It would almost irreparably damage the prestige of the Federal Reserve system to have the reserve banks fail to meet a situation or be obliged to call for voluntary contributions.

#### **How to Concentrate Our Gold Holdings.**

It is a familiar fact that gold certificates are now an important part of the currency of the country. They are largely in the pockets and hoards of the people, and passing from hand to hand. They appear in all cash payments of any size. The national bank statement of June 30th shows that of the \$1,414,000,000 at that time outstanding only \$324,824,000 were held by national banks; the remainder were in other banks and in use as the common medium of exchange. That this is an ineffective use of the country's gold stock seems to be so clear as to require no argument. The notes of the Federal reserve banks would answer this purpose equally well, and if the gold was turned over to the reserve banks they would be immensely strengthened for the task they have to perform.

For example, on October 1st the United States Treasury held approximately \$1,500,000,000 of gold against an equal amount of gold certificates outstanding. If these gold certificates were gathered into the reserve banks in exchange for the reserve notes, these banks would be able, if necessary, to release \$600,000,000 of gold for export and still have a reserve of sixty per cent. against their outstanding notes, and these changes might take place without affecting the amount of currency in circulation or disturbing domestic credits. Undoubtedly, if such an export movement was under way, it would be the part of prudence for the reserve banks to advance their discount rates, and for member banks to encourage a reduction of loans, but it is evident that with gold reserves of such magnitude the reserve note issues would serve as a buffer to protect the country from a violent contraction of credit. Under ordinary conditions the gold holdings of the reserve banks should be above eighty per cent.

#### **Government Should Cease Issuing Gold Certificates.**

The United States Treasury now comes naturally into possession of practically all the gold produced in the country or imported into it. Producers and importers sell to the mints or assay offices and receive their pay in gold certificates or drafts on the Treasury. The issue of gold certificates should cease, and where paper money is wanted reserve bank notes should be used, but of course the reserve notes must be made to serve every purpose

which the gold certificates now serve, including use in bank reserves. If this was done the gold production and importations would naturally accumulate in the reserve banks, and the outstanding gold certificates would gradually find their way to the same resting place, with the result that the country's stock of gold, instead of being scattered and unavailable, would be concentrated and in the highest degree effective for the protection of our banking system.

#### **Established Policy Elsewhere.**

There would be nothing new or experimental in this policy. It would be simply adopting the common practice of Europe. In every country of Europe gold importations go directly into the Central Bank, in exchange for its notes, just as in this country they go to the Treasury in exchange for gold certificates. Wherever paper money is preferred to metallic money for common use, the institution which issues the paper money comes naturally into possession of the gold stock, provided its notes are serviceable for every purpose. This is the case throughout Europe; the notes of the Central Bank are used as till money by the other banks, and the latter are not required to carry any other reserves.

Gold is vastly more serviceable in the vaults of a note-issuing bank than in circulation, and when an outward movement is necessary and gold must be found to pay the foreign obligations, the central bank is able to supply it with the least possible disturbance to financial conditions.

We have heretofore called attention to the efforts of the governments of Europe in this time of crisis, when each nation is under pressure to make the most of its resources, in appealing to the people to turn over their holdings of gold coin to the central banks and receive notes in exchange. In our federal reserve system we have failed to afford even the ordinary facilities by which paper currency may be given to the people in exchange for gold.

#### **An Unreasonable Conservatism.**

The objection offered to making reserve notes good in the reserves of member banks is that it would be pyramiding credit, but a moment's thought will show that it is impossible to give any elasticity to the currency supply except as credit may be expanded and contracted. A scientific currency system, while providing adequate restrictions upon the use of credit, recognizes that credit may be safely used, and must be used if the supply of currency is to be adapted to changing business conditions. In Europe the power to regulate the currency supply is vested with the Central Bank, but in this country it has been vested in the Federal Reserve Banks and Board. Evidently it would not be safe to allow thousands of national banks to issue notes in their own discretion,

and to use each other's notes as reserves. That would be pyramiding credit in a dangerous manner. But to allow the Federal reserve banks, as public institutions under the supervision of the Federal Reserve Board, to issue notes in their discretion, has been agreed to be not a dangerous exercise of power, and for the same reason it is not dangerous to allow their notes to be used as the reserves of the member banks. The exchange of reserve notes for gold or gold certificates involves in itself no inflation, for it does not increase the supply of money in circulation. It would simply strengthen the position of the Federal reserve banks to deal with unusual conditions. With a normal reserve of 75 to 90 per cent., gold, they would be able either to increase the issue of notes for domestic use or release gold for the foreign exchanges, or do both at once, with the minimum of disturbance to the domestic credit situation. The danger of inflation lies wholly in an unwise use of power by the reserve banks and the reserve board, but they have been established for the very purpose of acting as the custodians of unusual powers. If they cannot be trusted with powers necessary to the service devolving upon them the incompetency of the whole plan must be admitted.

#### **The Supply of "Jobs."**

In a recent number of this publication the statement was made that shorter train runs on the railways would necessarily increase the number of men required in the transportation service, and compel a corresponding withdrawal of men from the productive industries. The idea that anybody should be disturbed over this effect strikes the editor of a newspaper in one of the leading cities of the middle west as most amusing. Commenting upon it he says:

"But it sure does take a New York bank to father the proposition that the creation of more jobs means national calamity."

The fact that this paragraph should appear as editorial comment in a newspaper of large circulation indicates how widespread is the view that the number of jobs is more important than the volume of product. This writer seemingly would not understand how there could be any advantage in accomplishing a given amount of work with six men if twelve men could be employed upon it. Nowhere, in his opinion, outside of a New York bank, could anybody be found who would deliberately sacrifice six jobs in this manner. Presumably he has seen no advantage to the public in the vast expenditures that have been made to improve the road beds and increase the motive and carrying power of trains. Indeed, it may be wondered whether he sees any advantage in having railways at all, for it would require a great many more men to transport the freight

of the country in wheelbarrows. What a glorious country for "jobs" China must be, where they have practically no labor-saving machinery.

This idea that jobs are of more importance than product, and that the chief problem of society is to provide everybody with a job, instead of to increase the supply of food, clothing and other desirable things, would be ridiculous if it was not so prevalent and so serious an obstacle to industrial progress.

There is a scarcity today of wheat, corn, potatoes, meats, cotton and wool. They are all bringing almost fabulous prices, but the prices cannot increase the supply, except as they may check the movement of young men away from the farms into railroading and other occupations. Wages in the cities can never advance fast enough to keep pace with the cost of living, if the movement from farm to city continues. There is a shortage of labor on the farms. It is made up in part by the use of labor-saving machinery, and what a depressing loss of jobs there was when the self-binder entered the grain fields!

In the last analysis what is wanted is not more jobs, but more things: more grain, more meat, more potatoes, more materials for clothing, more materials for houses, larger and better houses, more comforts in the houses, etc., etc., and there is no hope of supplying these wants except by more efficient industry. Instead of making each job occupy as many workers as possible, we want each man's work to be as productive as possible. If this idea, of the public interest in the multiplication of products, instead of the multiplication of jobs, could be made dominant, industry would be revolutionized. The high cost of living would come tumbling down and the problem how we can keep our factories running after the war would be solved.

We make no argument against the principle of the eight-hour day. We have said that the proper length of the working day is not necessarily the same in all industries; it depends upon the character of the work, and is something to be determined by experience and by fair negotiations. If, as may be true in many instances, the average production is not reduced by cutting down the workday to eight hours, then there is no room for argument about it. If, however, the amount of product, or of service, is curtailed, as must be the case with trainmen under the Adamson law, then the cost is bound to fall upon the rest of the community, and the question of its propriety becomes a fair subject of inquiry. Eight hours a day for a few, fixed by law, and the cost charged up to thousands who work longer hours for smaller pay cannot be regarded as a measure of justice or progress.

## Warehouse Facilities.

We have had occasion to note from time to time with satisfaction the progress that is being made in various sections of the country in providing improved warehouse facilities for the storage of agricultural and other staple products moving in commerce. This progress has been important in the last five years and especially so in the last two years. The experience of 1914, when the natural movement of the cotton crop was interrupted by the war, gave a stimulus to the movement in the Southern states, but the example of and the benefits derived from the modern terminal warehouses which are now in operation at several points have given the chief impetus. The advantages of a public market where these modern facilities are offered are so evident that no city which aspires to be a central marketing point can hope to hold its own in the rivalry of markets unless it provides modern accommodations for the business it invites. The staple products of the farms and orchards are for the most part gathered in short seasons. Dairy and poultry products and meats come from the producers throughout the year, but even these are offered more heavily at some seasons than others. Fruits, grains, cotton and wool come from the producers in short seasons and must be stored and carried by somebody for distribution throughout the year. It must be admitted that we have been backward in this country in making proper provision for this storage. It is one of the signs of an advanced community, one of evidences of civilization, to have secure and substantial provision of a public character for taking care of these necessities in a prudent, economical manner. In the first place it is important that there shall be protection from the weather, in the second place that there shall be protection from fire, third, that there shall be responsible custody, so that money may safely be loaned on the commodity, and finally that there shall be economical means of handling. There is no other class of security so desirable for bank loans as receipts for this class of merchandise stored in first class public warehouses.

Memphis was one of the first cities to lead off in this respect, the warehouses of the Memphis Terminal Corporation having been opened in 1913. The plant of this Corporation covers an area of one hundred and seventy acres. The buildings are of concrete, equipped with the most extensive sprinkler system in the world, and served by ten miles of terminal railway. An overhead mono-rail system, built on a slight incline, enables one man and a mule to move 4,000 bales of cotton an average distance of one-half mile, daily. This is said to be equal to the work of 100 men, 100 mules and 100 drays under former conditions, when cotton was carted to and from storage houses. The

risk of fire is reduced to the minimum, the lowest insurance rates are obtained, and the receipts of the Terminal Corporation are as first class collateral for loans.

Another splendid warehousing and terminal system is under development at New Orleans. This system is constructed and operated by the Board of Commissioners of the Port of New Orleans, a public body created under the laws of Louisiana. The plant occupies frontage on the Mississippi river, near the heart of the city, and includes concrete and steel warehouses, a million bushel grain elevator, wharf houses, at which both river and ocean steamers may load and unload, twenty miles of railroad yards with storage capacity for 2,000 cars, and a belt line of railway giving connection with all the main lines of railway entering the city. Here is a complete co-ordination of all the agencies of transportation, with ample capacity for storage and complete facilities for handling. Runways and cranes connect every part of the structure, and compresses reduce cotton in transit to the smallest bulk, securing the lowest freight and insurance rates. All weighers, inspectors and samplers of cotton are appointed by the New Orleans Cotton Exchange and represent that body. The total public investment in this system is approximately \$5,000,000. Before the designs were adopted the latest terminals in New York, Philadelphia, Boston, Liverpool, London, Havre, Hamburg and other ports were studied. Work was begun early in 1915, and a portion of the terminal is now in use. The plan is to provide not only for the storage of our outgoing commodities like cotton and grain, but for coffee, jute, sisal and other standard package commodities.

The Port of Seattle is a municipal district created by the legislature of the State of Washington, under the management of a Board of Commissioners, and this Board has constructed since 1913 six public terminals, including transit sheds, wharves, storage warehouses, grain elevators, etc., fully equipped with all service apparatus at a cost of \$6,000,000. They are of the modern fireproof type, and fortunately were partly completed in time to accommodate the flood of trans-Pacific freight moving through Seattle to Vladivostock, and return cargoes from the Orient. A seven-story concrete convertible fruit warehouse and cold storage, capacity 800 cars and the fresh fish cold storage plant, 2,000,000 pounds capacity, are nearing completion. The last report of the Commission says that the warehouses have been practically filled as fast as completed, "their peculiar appeal being fair charges; absolute protection to goods; efficient service; freedom from partiality as to railroads, steamships, transfer men, or shippers; and the speed and low cost of interchange of commodities due to splendid physical arrangements and latest handling devices. For instance, salmon to

the value of over six million dollars has been handled in the present season at two public terminals."

We have heretofore referred to the new Candler warehouses at Atlanta, which are of the most approved type and already represent an investment of \$1,000,000, with plans for extensions. This location is in the heart of a great cotton-producing district, and is bound to be of great value to the producers in providing a safe, cheap place of storage, which can be used by them and by local dealers. With such accommodations the South will be able to withhold its cotton crop from the market in the crowded fall season, and sell it during the year as it is wanted by the consumers. The presence of such public accommodations, at a low charge will have a tendency to steady the price, and will give assurance to the producer that he has the benefit of the best possible facilities. Cotton held back from market in the past has usually been carried either in country sheds at the risk of danger from the weather or of destruction by fire, or in private warehouses that bore a high insurance rate. It is only two years ago that cotton was selling at six cents per pound in the Southern States while now it is approximately three times that price. Such fluctuations are not likely to occur with proper warehouse accommodations.

Several of the Southern states within the last two years have passed acts providing for bonded public warehouses, and the last appropriation act passed by Congress for the support of the Department of Agriculture at Washington, creates a system of warehouse license and inspection under that department. The licensee is required to give bond in such terms and conditions as the Secretary of Agriculture may prescribe, including the requirements of fire insurance, for the protection of those depositing commodities in his care.

All of these provisions help to perfect the organization and equipment by which commodities are moved from producers to consumers, reduce the risks and cost, and therefore are to be welcomed.

### Railway Wages in Great Britain.

While the controversy over wages of trainmen was pending in this country a dispute involving the wages of all railway employes was under discussion in Great Britain, and was settled by a compromise a few weeks later. The railways of Great Britain are being operated under government control, the government having taken them over soon after the outbreak of the war, under a certain guaranty of net returns to the companies, based upon net earnings in previous years. Whatever the government makes out of the traffic in excess of the guaranty will belong to the Treasury, and if the earnings fall short of the guaranty

the Treasury will be out by that amount. In October, 1915, the National Union of Railway Employees, through its officials, entered into an agreement with the government by which it agreed, in consideration of a bonus grant of five shillings per week to each employe, to make no further demands during the period of the war. Of late, however, the union officials have represented that they were compelled by dissatisfaction among the members of the organization, growing out of the rise of living expenses and wage advances in other industries, to demand a further bonus of ten shillings per week. To avert a strike, the date for which had been fixed, the government finally compromised upon another advance of five shillings per week all around.

The *London Times* gives the following schedule of weekly wages, exclusive of the war bonuses, upon one of the leading roads, which is said to be typical of wages upon lines running into London.

	£	s.	d.		£	s.	d.
Signalman .....	2	9	0	Stower .....	2	2	0
Passenger guard. .	2	3	7	Goods porter.....	1	16	0
Goods guard ....	2	1	8	Engineman .....	3	0	8
Shunter .....	2	0	0	Fireman .....	2	0	3
Porter .....	1	8	0	Ganger .....	2	8	0
Carman .....	1	16	8	Platelayner .....	1	12	0

The *Times* adds:

These figures apply to stations in London. It has also to be remembered that certain grades of railwaymen are supplied with clothing and that porters and some other grades add to their earnings by tips.

### The Problem of High Prices.

One of the causes of dissatisfaction among the railway employes, and it has been continually voiced in labor circles in England, has been the failure of the government to adopt a more comprehensive policy for the control of prices. The government took over the handling of all sugar and frozen meat importations early in the war, made extensive purchases of foreign wheat, and commandeered the necessary ships to carry its purchases, but it held back from an extension of the policy, undoubtedly from doubt of its ability to help the situation by further interference. More recently, and since the situation as to the American and Canadian crops were more clearly developed, it has taken over all the stocks of grain and flour in the United Kingdom, and assumed the entire charge of importations and distribution to retailers.

The government has explained over and over that the fundamental causes of the high prices is the war, that the effects of the war were beyond any power the government could exercise, but that it was giving the most earnest attention to the subject, and would go further whenever it could see any advantage in doing so.

Criticism is inevitable under such conditions. High prices for food and other necessities

always arouse resentment, for they are usually attributed to manipulation, and a great amount of misinformed and sensational writing is done, to satisfy the public interest. The situation has been one of the most difficult with which the British government has had to deal. A considerable portion of the public has apparently believed that it was exploited and that the government was indifferent to the situation. Certainly the latter assumption is untrue, and since the rise of prices has occurred all over the world there is every reason to believe that it resulted from natural causes and was beyond control.

### A Committee on Prices.

In June last a committee was appointed by the government to conduct an inquiry upon the cost of living and make recommendations. Twelve members were appointed, several of whom were members of Parliament and others were people of reputation as economists or as social workers. This committee reported on September 29th. It found that retail prices of British meat on September 1, 1916, averaged about eleven cents per pound above the peace level, and that on an average the cost of food in cities of over 50,000 population was 68 per cent. above the level of before the war. Clothing, including shoes, is from 50 to 75 per cent. higher. Taking into account food, rent, clothing, fuel, light and miscellaneous expenditure, the committee accepts the estimate that the average increase in the cost of living of the working classes is about 45 per cent. This, the committee finds, is much more than the average increase of the rate of wages, although it does not take into account the increases in earnings which have resulted from greater regularity of employment, overtime, substitution of piece work for time work, and other factors which have tended to increase earnings quite apart from the increase in rates.

The committee finds, what everybody knew, that the costs of production and of doing business have increased all around. It does not find that, generally speaking, the importers or distributors of food have made unusual profits, but it does find that home agriculture has profited by the war, and the most radical measure proposed, signed however, by only a minority, is that the government should not only extend its purchases abroad but should regulate the prices of home production. The Committee unanimously recommend—

- The speeding up of mercantile shipbuiding.
- The extension of the restrictions on the importation of superfluities.
- The development of the Government meat-purchase policy.
- The imposition of conditions on merchants and retailers of Government bought meat to secure sale at reasonable prices.
- The voluntary institution of one meatless day a week.

The empowering of local authorities to open municipal milk, meat, bacon and other foodstuff shops, where retailers are taking excessive profits. The revision by employers and public bodies of their pay-rolls in favour of the lower-paid workers.

Among the facts of interest developed by the discussion was this: that the food consumption of the British soldier, whether at home or at the front was about one and one-half times that of a man in civilian life. The consumption of clothing including shoes is also much greater, and in the armies of the continental countries the increase over normal is believed by British authorities to be even greater.

At the outbreak of the war a four-pound loaf of bread in London sold at 5½ pence, and now sells at 9 pence. Of this advance about 1 penny, is accounted for by the increased freight charge on wheat; the remainder, 2½ pence, or the equivalent of five cents a loaf above the normal price of 11 cents, seems to be accounted for by the rise of about fifty per cent. in the price of wheat in this country.

It is a surprising fact that bread at 4½ cents per pound is cheaper today in London, notwithstanding the high freights, than in any large city of the United States, and it is something to be considered in connection with our ambition to compete effectively in world mar-

kets. Retail distribution generally costs more in this country than abroad because of higher wages and more complete service, but it is a weakness in our industrial situation. It is a matter of national importance that food shall be made as cheap in the United States as it is anywhere.

#### Supply and Price.

The Prime Minister, Mr. Asquith, in reply to a delegation which had urged more extensive action to control prices, said that while high prices were to be deplored, an actual shortage of food in the country would be still more serious. If there was a reduced supply of food stuffs in world markets the most important thing for England was to be assured of an ample supply of its necessities and it could not do this by regulating prices below world prices.

When there is an actual reduction of the supply below normal it is evident that consumption must be reduced. If the normal consumption of wheat is five bushels per capita, and the available supply is reduced to four bushels per capita, no increase of wages can be made that will enable everybody to have the normal portion of wheat. Either the govern-

### STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS OCTOBER 27, 1916. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certifs. Settlement fund. Cr. Balances	9,764	164,189	19,443	15,736	4,395	4,183	26,396	5,003	5,937	4,101	3,582	11,272	274,001
Gold Settlement Fund	15,225	13,758	1,891	11,953	18,615	2,455	22,658	6,281	4,954	11,617	10,344	2,636	122,587
Gold Redemption Fund	5	250	50	69	212	220	200	70	30	117	158	10	1,391
Total gold reserves	24,994	178,197	21,384	27,758	23,222	6,858	49,254	11,354	10,921	15,835	14,084	14,118	397,979
Legal tender notes, Silver certifs and Sub. coin	702	5,231	444	1,118	77	390	485	1,056	216	36	170	61	9,976
Total Reserves	25,696	183,428	21,828	28,876	23,299	7,238	49,739	12,410	11,137	15,871	14,254	14,179	407,955
Redemption fund—F. R. bank notes										370	50		420
Bills discounted, Members Commercial paper	471	1,092	357	355	3,758	3,020	2,942	2,397	2,533	798	3,173	235	21,131
Bill bought in open market	10,410	24,545	12,417	6,812	1,826	3,807	6,460	5,444	3,038	2,213	710	8,403	86,085
Total bills on hand	10,881	25,637	12,774	7,167	5,584	6,827	9,402	7,841	5,571	3,011	3,883	8,638	107,216(c)
Investment U. S. Bonds	2,132	1,413	2,176	5,737	523	1,210	7,436	2,348	2,870	9,270	2,720	2,634	40,469
One-year U. S. Treas. notes	1,000	1,205	1,174	718	1,070	824	1,517	891	700	963	705	668	11,435
Municipal Warrants	3,738	7,636	3,280	4,611	61	291	3,795	1,429	1,609	552	25	2,853	29,890
Total Earning Assets	17,751	35,891	19,404	18,233	7,238	9,152	22,150	12,509	10,750	13,806	7,333	14,793	189,010
Federal Reserve Notes, net Due from other F. R. Banks	1,407	10,750	520	342			1,299		817			1,711	16,846
net	1,137	1,842	1,524	1,912	372	3,798	9,569	6,323	1,523	2,287	839	2,071	33,197(b)
All other resources	125	243	77	247	53	395	424	347	39	197	1,188	373	3,708
TOTAL RESOURCES	46,116	232,154	43,353	49,610	30,962	20,583	83,181	31,589	24,266	32,531	23,664	33,127	651,136
LIABILITIES													
Capital Paid in	5,024	11,909	5,224	5,994	3,340	2,479	6,679	2,794	2,605	3,044	2,690	3,921	55,703
Government Deposits	1,668	4,178	3,919	1,399	3,904	3,487	2,453	2,646	998	826	1,826	2,678	29,982
Reserve Deposits, net	39,257	216,042	34,074	42,217	19,649	12,228	74,049	23,693	20,663	26,599	16,945	26,502	551,918
Federal Reserve Notes-net Federal Reserve Bank					3,924	2,352		2,456		1,031	2,203		11,966(a)
Notes in circulation										1,031			1,031
Due to other F. R. Banks													
net													
All other liabilities	167	25	136		145	37						26	536
TOTAL LIABILITIES	46,116	232,154	43,353	49,610	30,962	20,583	83,181	31,589	24,266	32,531	23,664	33,127	651,136

(a) Total Reserve notes in circulation 214,622

(b) After deduction of items in transit between Federal Reserve Banks, 33,197, the Gold Reserve against Net deposit and note liabilities is 71.0% and the cash reserve is 72.8%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 73.5%.

(c) Maturities of bills discounted and loans within 10 days, 16,806; to 30 days, 20,513; to 60 days, 39,062; other maturities, 30,833; Total: 107,216.

ment must take charge of the supply and apportion it, or there must be voluntary abstinence, or consumption must be curtailed by rising prices. The first proposition is a very difficult one to carry out, the second is too uncertain in results, the third is automatic. As prices rise a direct inducement is offered every consumer to practice economy and resort to substitutes. It is therefore in the public interest that when a real scarcity occurs prices shall rise promptly, so that the policy of economy and of substitution shall begin as early as there is evidence of a necessity for it.

#### **American Prices.**

When it was known that disaster had come upon the spring wheat crop of the United States and that this country's total yield of wheat for 1916 was about forty per cent. less than in 1915, the price began to rise, and much was said in British newspapers about the American wheat ring, and the heartless speculators who were putting up the price of food while other people were battling for human liberty, etc. In this country also, there have been numerous comments to the effect that at least no scarcity was imminent, and therefore no excuse for so great a rise at this time. But in any country where people exercise ordinary foresight prices will go up on a shortage. In the first place the farmer who harvests six or eight bushels to the acre where he expected to get fifteen or twenty has a fair claim to a higher price, and it would certainly be an injustice to him to have the price rise after the grain had left his hands. A prompt rise of price, such as occurred this year, gives the benefit where it ought to go, viz.: to the farmer in compensation for a short crop. Moreover, if the shortage is recognized immediately, and the rise takes place at the beginning of the crop year, the supply will be made to go further, by means of economies and

substitutions and the average price for the year will probably be lower than if the situation is not understood until later.

Finally there is always to be considered the effect of the price, and of any interference with natural prices, upon the farmer and upon his policy in the future. The farmer takes his chances with the seasons, and has his good years and his bad years; his competition is with the whole world, and the chance of extraordinary remuneration is not large. Any attempt to arbitrarily restrict the prices of his products is likely not only to be resented but to influence his production of those particular products afterward. There was serious talk in this country of placing an embargo upon the exportation of wheat of the 1914 crop, but it was not done, and as a result of good prices the farmers raised in 1915 the largest crop ever grown in this country, and the price fell from above \$1.60 per bushel to about \$1. per bushel.

The American meat packers come in regularly for their share of condemnation for extortionate prices. They are used to it, for they have it at home, as well as from abroad. Every time there is a rise in meats an outcry goes up against them from consumers, and whenever there is a decline an outcry comes from the producers. The wonder is, if they have such complete control of markets, that the prices of meats ever decline or the prices of animals ever rise. Moreover, the moderation of their profits under such circumstances is truly remarkable. Thus the average profit of Swift & Co., upon its entire sales of over \$600,000,000 in the fiscal year closed in September last was 2.8 per cent. This is the result of a business which not only enjoys the advantages of all markets, and of large sums of money borrowed at low rates, but which has developed to the highest possible degree the utilization of by-products in the manufacture of various commercial articles.

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